This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.

More on the BTI at [http://www.bertelsmann-transformation-index.de/](http://www.bertelsmann-transformation-index.de/)


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Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than $2 a day.

Executive Summary

In February 2008, General Raúl Castro (born in 1931) became president of the Council of State and the Council of Ministers, formally replacing his brother Fidel Castro. Raúl Castro had already held these titles on an acting basis since August 2006, when Fidel became seriously ill. The succession from Fidel to Raúl Castro in August 2006, and more officially in February 2008, took place within a context of gradualism and normalcy. Raúl’s choice of veteran cadre José Ramón Machado Ventura as new first vice president signaled the importance given to elite cohesion. There has been leadership renewal among office holders in the middle ranks but not at the top. The Council of State vice presidents also constitute the executive committee of the Communist Party’s political bureau; their median birth year is 1936. All but one of the vice presidents also served in that capacity under Fidel Castro. The only newcomer, Julio Casas Regueiro, is a 71-year-old army general long attached to Raúl Castro.

Raúl Castro repeatedly alluded to the need for a process of controlled reform. However, actual changes in 2008 were modest. The government authorized the purchase of cell phones, computers and DVD players. However, these purchases require the employment of hard currency, and only a few Cubans have thus benefited from these reforms. Cubans possessing hard-currency funds were also authorized to stay at hotels or eat at restaurants designed for international tourists. (Cuba has a dual currency system: Most Cubans are paid in pesos, and the median salary at the start of 2008 was just above 400 pesos per month. However, certain transactions require hard-currency convertible pesos, which are worth approximately one U.S. dollar. The exchange rate between pesos and convertible pesos was approximately 24 to 1 during the period of review.) In agriculture, a scheme to lease idle state land to private farmers was initiated. In the wake of severe hurricane damage in fall of 2008, black and informal market activities suffered nationwide repression. In foreign policy, Cuba aimed at diversifying its foreign relations in order to reduce dependency on Venezuela. The country made several significant diplomatic advances, such as normalizing relations with the European Union, and
attracted numerous high-level visits to Havana from figures including the heads of state of Brazil, Russia and China.

Since becoming acting president, Raúl Castro has revived political life within the framework of the political regime. There have been national congresses of regime-sponsored mass organizations such as the labor unions, the women’s federation, artists and writers, young people, the committees of the defense of the revolution and other such groups. These organizations had languished during Fidel Castro’s waning years. The Communist Party will hold its national congress in late 2009, after a 12-year lapse. However, the timid initiatives for freer discussion and criticism sparked by Raúl Castro’s “call for debate” had largely petered out by mid-2008.

History and Characteristics of Transformation

Cuba retains a strong state and an authoritarian political regime, founded by Fidel Castro and his comrades as the outcome of revolutionary victory in early January 1959. Both are stable. In this single-party political regime, the number of candidates in National Assembly elections equals the number of seats. The Communist Party vets in advance all National Assembly candidates as well as all candidates for appointment to top managerial, administrative, professional, and elective posts. The government owns and operates all mass media.

In the 1970s, at the height of its alliance with the Soviet Union, Cuba made its transition from a rebel regime to a “lawful” authoritarian regime. A new constitution was enacted in 1976, a National Assembly was elected and began to operate that year, multi-candidate single party elections also began for municipal offices, the number of political prisoners fell dramatically by the end of the 1970s, and the courts would henceforth dispose of criminal and civil cases in professional fashion. In 1975, the Communist Party held its first congress, and it held several congresses on schedule in 1980, 1985 – 1986, and 1991. While Fidel Castro remained the most prominent political figure, never before or since have the government and the Communist Party made such efforts to abide by their own laws and procedures.

As a result of the collapse of the Soviet Union and the loss of Soviet subsidies, gross domestic product (GDP) fell by approximately 30% between 1990 and 1993, and the volume of international trade fell by three-quarters. In the early 1990s, the Cuban government adopted some limited market-oriented reforms, welcoming international tourism and foreign direct investment in partnership with state firms, principally in the tourism, mining, petroleum and natural gas sectors. These joint ventures all must hire their Cuban labor force from a government agency. The government authorized free agricultural markets and limited self-employment, both under considerable regulatory constraints. Perhaps the most significant market reform was never formally announced: a greatly increased tolerance of black-market activities. A further step with
far-reaching implications was the legalization of the U.S. dollar, which resulted in a monetary dualism. The acceptance of remittances from the Cuban diaspora became a key source of foreign exchange in the struggle for economic survival. Many state enterprise subsidies were cut, taxes on the new economic activities were imposed, and the budget deficit was curtailed to below 4% per year on a sustained basis. By the late 1990s, consumer price inflation fell and remained in the single-digit range through the 2000s.

In second half of the 1990s, in parallel with the stabilization and gradual recovery of the economy, Fidel Castro backtracked in his steps toward open markets and once again personalized power, thereby weakening the regime’s institutional underpinnings. Political repression against the opposition heightened in 2003. The government curtailed the autonomy of state enterprises, whose executives had to get permission from the Central Bank before writing a check for $5000 or more. Lawful options for self-employment fell and a domestic “convertible peso” was substituted for the U.S. dollar. In this context, ideological campaigns became dominant again, culminating in the so-called Battle of Ideas.

The political economy of this gasp of authoritarian rule rested on a new relationship with the government of President Hugo Chávez in Venezuela. Cuba received petroleum at a high discount off international market prices, paying for this mainly by dispatching tens of thousands of Cuban health-care personnel, teachers, sports coaches, bodyguards, intelligence operatives and other service providers. These transactions enriched state coffers, and led the Cuban economy to recover some measure of growth from 2004 to the first half of 2008. Politically, the consolidation of the Chávez regime and the broader success of left-wing presidents in many Latin American states underscored the failure of Washington’s goal of isolating Cuba. However, as Fidel Castro stepped down and Raúl Castro succeeded him in office, the Cuban government acknowledged the need to improve material living conditions on the island and to restore value to peso-denominated salaries, suggesting a new agenda of limited market-oriented reforms.

Since the mid-1990s, the Communist Party – which the constitution accords the role of “guiding force in state and society” – has become deinstitutionalized. Under its statutes, it should have held a party congress in 2002 or 2003. None was held; however, Raúl Castro has indicated that one will held in late 2009. Normal processes of leadership recruitment and replacement have been stymied, and a gerontocracy has become entrenched. The party’s statutes also call for central committee meetings approximately every six months, but this body met just five times between 1997 and April 2008, when Raúl Castro convened its Sixth Plenum.

The world economic crisis hit Cuba hard in 2008. Increased international food prices (up 53% as compared to 2007), a decline in the international price of nickel – Cuba’s principal goods export – by 41%, and a devastating hurricane season in 2008 stopped the Cuban economy’s growth in the second half of that year. It led also to an official budget deficit equal to 6.7% of gross domestic product, the highest since the early 1990s.
Transformation Status

I. Democracy

1 | Stateness

The state possesses and exercises a monopoly over the use of force throughout the entire territory. The last internal war ended in 1966. The last large-sized non-violent public riot took place in the summer of 1994. Violent crime has increased somewhat since 1990, but compared to most cities of the world, Havana remains safe. As an island state, the territorial boundaries of Cuba are not in question. The only exception is the U.S. naval base at Guantánamo Bay that is subject to a century-old treaty arrangement, but which Cuba claims in principle to be part of Cuban territory. However, this dispute has not so far surfaced as a major issue in Cuban-U.S. relations.

There is widespread agreement regarding the definition of Cuban citizenship. Cuba is a racially heterogeneous society, but persons across the color spectrum fully identify as Cubans. Since 1912, Cuban law has prohibited the organization of political parties based on race. While the issue of citizenship is virtually uncontested with respect to residents of the island, the large-scale emigration that has taken place since 1959 complicates the issue. The adoption of U.S. citizenship by most émigrés, combined with an ongoing sense of belonging to Cuba, and their corresponding political and economic claims made from U.S. territory may in the future raise thorny questions about this group’s participation in Cuban political and social affairs (including issues such as dual citizenship).

The Roman Catholic Church was disestablished when the United States conquered Cuba in 1898. The syncretist Santería faith constitutes Cuba’s most widespread religion, but is little institutionalized and does not have a hierarchical nationwide organization. The state is secular, and owns and operates all schools, health care institutions, cemeteries and similar social institutions. About a fifth of Cubans tell pollsters that they belong to a community of faith, and a majority expresses some religious belief. At the 1991 party congress and by means of the revision of the 1992 constitution, lawful discrimination against religious believers was abolished. The Communist Party, no longer formally atheist, admits religious believers.
However, religious believers are still informally denied certain rights, especially promotion to top management or administrative jobs.

The state has a differentiated administrative structure throughout the country, making it possible to extract and allocate state resources broadly. This includes universal coverage of social services such as health and education. The state enforces a compulsory military service law. Its capacity to prevent the existence of an illegal economy was weakened markedly in the 1990s, but has significantly increased in recent years. In emergency situations, most notably hurricanes’ recurrent devastation, state and military display a remarkable capacity to evacuate large numbers of people efficiently as well as to restore affected public facilities such as roads, electricity and communications.

2 | Political Participation

Political participation takes place within an authoritarian brand of socialism, which allows only one party, the Communist Party of Cuba (PCC). There are no competitive democratic elections. Cuban citizens vote for National Assembly deputies. The electoral law requires that the number of National Assembly candidates be equal to the number of seats, however. Electoral commissions chaired by Communist Party officers nominate candidates. Deputies are clustered on lists by district. In the January 2008 National Assembly election, nonconformist voters (who vote blank, void, or selectively instead of for the official list as a whole) numbered 1.1 million, exceeding 13.4% of the votes cast. The government exercises its monopoly power over the mass media before each election. The National Assembly meets typically twice each year, each time for one to three days, though its commissions work for the week preceding each Assembly meeting. Votes are ordinarily recorded as unanimous, though Assembly commissions at times question officials sharply and Assembly discussions may cause the executive to amend or delay a bill.

Rulers are not elected democratically.

Whereas the constitution guarantees the right of assembly, except as prohibited by law, in practice freedom of assembly “from the bottom up” is extremely limited. The constitution defines the Communist Party as the leading force in state and society; as a result, the party sponsors mass organizations for workers, women and young people, as well as professional organizations such as writers’ or journalist’s unions. This makes it very difficult for any independent associations to operate, to the point that the term “independiente” is widely regarded as a synonym for “opposition.” State security harasses and at times imprisons opposition leaders. Respectively in 2002, and again in 2003, Oswaldo Payá and his Proyecto Varela group gathered 11,000 and 14,000 signatures on petitions demanding a national
political referendum. Christian churches sponsor a number of civic groups. There are social gatherings of subculture groups which are in principle tolerated, but control and harassment are common.

The state exercises monopoly ownership and control over television, radio, and newspapers. Some officially sponsored magazines, such as Temas, discuss salient public questions with considerable albeit still limited freedom. Since the mid-1990s, the government has authorized church-affiliated magazines. Palabra Nueva, Espacio Laical, and Vitral discuss religious and other significant public issues, but within the constraints of censorship. The Internet’s ability to erode the state media monopoly is coming to be of increasing importance. An independent bloggers’ scene has sprung up, quickly gaining worldwide visibility, and Cuba’s award-winning pioneer blogger, Yoani Sánchez, has become one of the most prominent public figures within Cuba’s opposition. The Internet also offers a forum for a variety of non-conformist artists, with considerable international reach.

3 | Rule of Law

There is no separation of powers in the liberal sense. The constitution vests supreme power with the National Assembly, though this body is in fact subordinate to the executive branch and Communist Party leadership, which until very recently translated into the highly personalistic leadership of Fidel Castro. As a consequence, there are no meaningful checks and balances in the formal sense. With the transfer of power to Raúl Castro, the personalized nature of the executive has lost influence, resulting in a marked strengthening of formal institutions.

The judiciary is institutionally differentiated but not independent, as its decisions and doctrine are subordinate to political authorities. The executive nominates Supreme Court justices; the National Assembly elects them and may remove justices and other judges easily by a simple majority vote. Judges serve for term. The constitution subordinates the Supreme Court to the National Assembly. No court may declare a law unconstitutional. However, the courts discharge their obligations professionally andrationally in most non-political criminal and civil cases; appeal procedures operate in such cases. Corruption in the courts is rare.

As a rule, corrupt officeholders are severely prosecuted. In 2003 – 2004, the minister of tourism and many top tourism officials (tourism was Cuba’s economic growth engine between 1990 and 2005) were dismissed, and several were prosecuted and convicted. However, there is no transparency in any of these cases. The lack of an independent mass media, normally operating opposition parties, or independent courts and parliament makes it impossible to determine the extent of corruption. Some “corruption” trials have in fact represented vendettas against officials who have fallen out of favor. In some cases, officials are removed from
office without any reason given and it is left to rumor to spread the word of their (supposed or real) wrongdoings.

In a strong-state authoritarian regime, there is little effective protection of civil rights and personal liberty. Notably, freedom of assembly and freedom of expression are severely curtailed. However, there is general equality before the law among citizens regardless of gender. Racial discrimination is outlawed, though Cubans of color are disproportionately present in the prison population. The numbers of persons imprisoned for “political crimes” was below 300 in 2008. Official respect for freedom of religion has widened, but freedom to exercise religious beliefs outside church or temple walls remains constrained. Civil rights are at times violated massively, though the duration of such violations has shortened. The last major episode of official repression occurred in 2003. After Raúl Castro assumed the role of head of state in February 2008, Cuba signed two major U.N. human rights documents, though ratification is still pending. As Raúl Castro’s daughter, Mariela Castro, heads the National Center for Sexual Education (CENESEX), the months since Fidel’s retirement have seen major public awareness campaigns against discrimination based on sexual preference, and police officers have received training to prevent abuses against homosexuals.

4 | Stability of Democratic Institutions

There are no established democratic institutions according to the normative definitions of the BTI. In the future, the National Assembly’s formally impressive powers could facilitate a democratic transition; formally, the Assembly can dismiss the entire Supreme Court, the Council of State, and the Council of Ministers by simple majorities. The constitution’s bill of rights, purged of its exceptional clauses, would conform well to the Universal Declaration on Human Rights. Votes cast blank, void, or for some but not all the candidates on official lists for National Assembly elections are officially counted and reported, though there is no way of independently verifying these data.

This is an authoritarian regime. Only opposition actors openly support pluralist democratic procedures.

5 | Political and Social Integration

There is no party system as such. The constitution’s Article 5 mandates a single-party system that has proven remarkably resilient. The transfer of power to Raúl Castro has strengthened the regime’s institutions, including the state, military and communist party.
Interest groups as normally understood do not exist, except for the Roman Catholic Bishops’ Conference and perhaps the Ecumenical Council of Protestant Churches. Institutions truly independent of the state are small and weak. However, the officially sponsored Cuban Confederation of Workers (CTC) has been a factor in preventing the imposition of direct income taxes, and has moderated the reform of the law on pensions. State-controlled organizations primarily serve as top-down channels of communication, but also constitute a frame for limited bottom-up participation within the system of state socialism.

Cuba is an authoritarian regime. There is no reliable data available concerning Cuban citizens’ consent to democracy.

There are few independent civic associations and participation in them is limited. However, fragmentary evidence implies that the barriers are the state and the Communist Party rather than the culture or a lack of trust between persons. Social capital has grown through readers’ circles, food-growing coops and religious groupings, but remains at a very low level.

II. Market Economy

6 | Level of Socioeconomic Development

Compared to the profound and deeply rooted inequalities of other Latin American societies, Cuban society is a highly inclusive one. Key social services such as health and education are open to everyone regardless of income, race or gender, and the revolutionary housing reforms greatly decreased the spatial segregation of society. The rationing system guarantees a minimum of food to everyone, while the cost for housing is close to symbolic. Most international measures of poverty tend to be misleading, as – due to the wide spectrum of provisions by Cuba’s state socialist economy (housing, subsidized food, health and education) – monetary income is not the only key to access. As a consequence, official Cuban think tanks rather speak of a “population at risk” than of poverty. According to these groups, about one-fifth of Cubans fall in this category, that is, have a monthly income below $4, grow no food, and receive no remittances. The monthly median salary in 2008 was about $17, and the majority of Cubans live in hardship even if health care and schooling are free of charge. Infant mortality is very low by global standards. Life expectancy is at the European and North American level. Despite formal equality, a gender gap and ethnic imbalances remain highly visible in top administrative functions. In daily life, women still have to cope much more with the dual burden of work and household than do men.
### Economic Indicators

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### 7 | Organization of the Market and Competition

Market-based competition is limited to the black or “informal” market and a small lawful market economy that has evolved since the early 1990s. State intervention remains very strong, even in joint ventures and private farming. Government regulation in the 2000s reduced the number of the lawfully self-employed below the level achieved in the late 1990s. However, Raúl Castro’s announcement to “do
away with excessive prohibitions” has been read as forecasting future openings for small-scale market activities. In January 2009, new licenses for private taxis were granted. In agriculture, a program that leases idle state land to cooperatives and private farmers has allotted some 660,000 hectares to a total of 45,000 solicitants. However, the government still defines production plans, and farmers have to sell most of their produce to the state at fixed prices. Hard-currency shops have opened since the mid-1990s that offer a wide array of consumer goods, but all are state-run and have state-set prices. This also applies to the sale of cell phones, computers and DVD players, which were legalized after the transfer of power from Fidel to Raúl Castro.

Government concessions to foreign investors promote cartels, insofar as they create and protect monopolies or oligoplies even in sectors (e.g., tourism) where world market structures would otherwise facilitate competitive outcomes. At the same time, the government has deliberately created a situation of competition between various state or quasi-state firms in a number of areas.

In the 1990s, the government granted discretion to state enterprises to manage foreign trade, and foreign firms managed their own transactions. However, in 2004 the government reduced the number of state firms authorized to engage in foreign trade, centralized purchases, and prevented state firms from retaining their earned foreign exchange. Cuba depends on the world market to export some goods, mainly nickel, and services such as tourism and health care. State control over foreign trade has also increased as Venezuela has emerged as Cuba’s key trade partner, with strong state participation on both sides. The two countries founded the Bolivarian Alternative for the Americas (ALBA) as an alternative to the failed Free Trade Area of the Americas proposed by the United States.

The state owns all banks. There is no capital market.

8 | Currency and Price Stability

Since the mid-1990s, Cuba’s inflation rate has been in the single digits. Foreign exchange policy serves political purposes; there is no independent central bank. The key problem in foreign exchange policy is the maintenance of two currencies: the peso, to pay Cuban workers and for many retail transactions, and the convertible peso, approximately equal to the U.S. dollar, for transactions in hotels, restaurants and well-stocked retail stores. This dual currency system represents the institutional foundation of Cuba’s markedly widened inequality in the 2000s. The consumer price inflation for 2008 was estimated to be around 4%, although the dual monetary system puts any such estimates on shaky grounds.
Budget management has been professional since the mid-1990s, and the budget deficit as a percent of GDP was 4% or below until the 2008 financial crisis, when it rose to 6.7% of GDP. A key indicator for macrostability in Cuba is the informal dollar-peso exchange rate, which after skyrocketing in the early 1990s has been kept more or less stable at around 1 to 25 for more than a decade. Cuba stopped servicing its international financial debt in 1986. It is among the highest debtors to the Paris Club of governments. It has refused to pay Russia or any successor Soviet state the debt that it had accumulated with the Soviet Union. At various times it has renegotiated debts incurred for nonpayment of trade credits.

9 | Private Property

Though property rights are formally defined by law, they are extremely weak, especially concerning their role in Cuba’s economic system. Cuban citizens have the right to own a house and their personal belongings. Private sale of apartments or houses is not allowed. The threat of state confiscation of property constitutes a powerful disincentive to illegal activities, such as renting an apartment to foreigners without authorization or using a privately owned car for an unauthorized taxi service. Private ownership of the means of production is kept to a minimum with the single exception of agriculture, where private property has been respected for small landowning farmers. However, there is no full autonomy with respect to use of this land.

Cuban citizens cannot create business firms that hire non-relatives, though they may hire relatives if they hold a license for “self-employment,” according to a list of economic micro-business activities legalized in 1993. Article 15 of the 1992 constitution allows the executive committee of the Council of Ministers to grant property rights to selected foreign firms that join Cuban state enterprises in joint ventures. These hybrid firms have a dominant role in sectors such as tourism, mining, petroleum and natural gas. While most of these ventures were with capitalist partners from Europe or Canada in the 1990s, Venezuelan and Chinese partners have more recently also become important. In early 2009, a key foreign investor, Canada’s Sherritt, suffered from a cancellation of one of its joint-venture contracts, leading to an extremely costly fall of its shares on the stock market.

10 | Welfare Regime

Cuba provides free health care and education, access to athletic facilities, subsidized day care and cafeterias for state enterprise workers, and unemployment compensation for the entire population. Compared to other Latin American countries, Cuba’s social safety net is in many ways without equal. However, the devaluation of the domestic currency has greatly eroded the value of monetary
transfers. There is a universal-coverage pension system paid in pesos; the minimum pension rose to approximately $8 per month at the start of 2009. The quality of the health and education system has suffered greatly from the economic crisis and the drain of its workforce to better remunerated sectors.

Rather than social background, a key limitation to equality of opportunity is political loyalty. Open disapproval of the system is likely to affect upward mobility severely. Aside from this, there is considerable equality of opportunity. White-black ethnic differences are minimal with respect to accessing primary and secondary education. Women constitute a majority of students in most university degree programs, including medicine. While gender inequalities appear in top political and managerial jobs, racial inequalities exist in the professions. Because the Cuban diaspora is disproportionately white, Cuban blacks are less likely to benefit from the population’s key source of hard currency, remittances from emigrated relatives. While religious tolerance has greatly increased, religious believers still face some amount of informal discrimination in terms of access to higher office.

11 | Economic Performance

In the mid-2000s, Cuba’s GDP per capita finally returned to its mid-1980s level, albeit with much greater inequality. Increased tourism, a rise in international nickel prices, and an extraordinarily favorable economic relationship with Venezuela, evident in a boom in Cuban exports of services, led to substantial growth from late 2004 to early 2008. However, it should be noted that growth rates cannot be traced to sustained, positive or controllable macroeconomic data. Since 2002, the government has shut down the majority of sugar mills; annual sugar output has fallen to about a seventh of its late-1980s. In 2008, three hurricanes devastated large portions of Cuba’s infrastructure, significantly lowering Cuban growth expectations. The impact of the world financial crisis on the Cuban economy can not yet be fully estimated. Regarding Cuba’s dependency on Venezuela, the fall in world oil prices raises doubts as to whether economic relations can be kept at their current favorable levels. Prospects for continued growth in the near term seem rather poor, as nickel prices have plummeted, remittances have shrunk, the external financial squeeze has been exacerbated, and much of the domestic economy has yet to show signs of renewed dynamism.

12 | Sustainability

Environmentally sustainable growth receives sporadic consideration, but lacks an autonomous institutional framework and is subordinate to economic growth. Dam construction, poor soil management policies, and “Stakhanovite” campaigns – campaigns aimed at overachieving on the job – have long been sources of
ecological damage. Accelerated tourist development in the early 1990s compounded ecological damage. However, Cuban scientists have succeeded in introducing environmental concerns into tourism project design and assessment, and the Ministry of Science and Technology has changed its name to include “Environment” as part of its mandate.

Cuba spends a large fraction of the state budget on education, and has done so for decades. It has also offered an example of extremely low economic return on its vast investment in education. Cuba has a large network of basic, secondary and higher education institutions, and many significant research institutions. There is no private educational system. The quality of its science and scientists in some fields is world class. However, the transformation of research into useful products has been a problem; Cuba has long invested huge sums in the development of biotechnology, with few commercially significant results. This vast investment in human capital began to pay off in the mid-2000s with the massive export of Cuban health care, education and sports services to Venezuela in a barter arrangement for Venezuelan oil shipments, which may augur well for the future.
Transformation Management

I. Level of Difficulty

Governance capacity is still constrained by the sudden failure in the early 1990s of a development strategy built on the expectation of indefinite Soviet subsidies. Governance capacity in the 2000s is limited by a renewed dependence on external support from Hugo Chávez’s Venezuela and thus on the vagaries of world oil prices. On the other hand, Raúl Castro has been highly successful in diversifying Cuba’s external relations, including the normalization of relations with the European Union and the convergence of Latin American governments from left to right on a policy of engagement with Cuba. With Cuba entering the post-Fidel era and Barack Obama taking the reins as new U.S. President, expectations of an impending change in U.S. policy have risen. While a full-scale lifting of the U.S. trade embargo seems highly unlikely, at the close of the review period, the new administration was expected to lift key sanctions on people-to-people contacts such as family visits and remittances, and additional loopholes in the embargo legislation are likely. Cuba traditionally has few natural resources other than nickel and beaches, but in recent years promising results from offshore oil drilling has caught the attention of the global oil industry. With a few exceptions such as tobacco, Cuba has not been a competitive industrial or agricultural performer for the past half century.

Civil society before the 1959 revolution was moderately strong. The political regime since then has undercut this autonomy by prohibiting independent civil society institutions outside the churches. Since 1990, some civil society organizations resurfaced, mainly connected to the churches, but these remain weak. Aside from the official regime-sponsored mass organizations, a wide array of associations has been established since the 1990s, which self-identify as “non-government organizations” but whose autonomy is clearly limited by the state.

Despite persistent racist attitudes in interpersonal relations and certain race-based inequalities, there is no politicized racial conflict. Associations based on race are illegal. At present, social cleavages on the island are minimal. As the profound social cleavages of pre-revolution Cuba have been “exported” to the United States by means of large-scale emigration of the predominantly white upper- and middle-
class sectors, the potential return of these groups in the course of any political transformation would radically change the character of Cuba’s social cleavages.

II. Management Performance

14 | Steering Capability

The political leadership has extremely clear long-term priorities, with one dominant goal in particular: sustaining the authoritarian regime. At the onset of his term in office, Raúl Castro suggested an agenda that was to include economic reforms and more tolerance for societal debate. However, in the course of 2008, elite cohesion became the dominant priority and initiatives hinting at an opening of the society largely petered out. In its international political and economic relations with the European Union, Canada, Mexico, and other countries, Cuba’s leadership has demonstrated that it will sacrifice economic gain and political comity when there is a perceived threat to the country’s political regime. These long-term objectives stand in opposition to the points of reference that guide the BTI, which explains the low rating given.

The government has not implemented democratic reforms. It has implemented several market-oriented reforms. It welcomes foreign direct investment in partnership with state enterprises. It permits agricultural markets at market prices. It has shifted about a third of the total agricultural land from state firms into semi-private cooperatives, and in 2008 it expanded opportunities to allocate use-rights on state farms to private or cooperative producers. It has authorized self-employment microenterprises provided that only relatives are hired. It has managed a prudent budget policy, cutting expenditures and increasing taxes on joint venture enterprises. And in December 2008 it adopted a new law on retirement and pensions that prolonged the date of retirement by five years, among other changes. While Raúl Castro’s call to “undo excessive prohibitions” was not followed by corresponding market reforms, in part due to struggles within the regime, it is not unlikely that such a course of controlled, gradual reform will gain some momentum in the coming year. However, even if these reforms appear from the outside to be “market-oriented,” the government would not perceive itself to be adopting capitalist or neoliberal measures.

The political leadership has demonstrated its capacity to learn and change policies, but not to change the cognitive basis on which those policies are based. From 1989 to 1994, in response to economic collapse, the leadership broke through taboos that
had constrained Cuban economic policy since the 1960s, welcoming foreign firms and international tourists, and permitting free-market transactions. In the current decade, in response to economic recovery and Venezuelan-supported growth, the leadership “learned” again, stepping back from its economic reform process and reimposing statist policies. With the transfer of power from Fidel to Raúl Castro, a capacity for policy learning once again became visible, as Raúl clearly steered away from his brother’s personalistic style toward a brand of socialism grounded more in institutions. Moreover, he initially opted for a fresh political discourse and issued promises that earned him popular sympathies. However, this learning collided with a different “lesson learned” from the breakdown of East European socialism: that elite cohesion is paramount for regime survival. As a result, Raúl Castro scaled down reform initiatives as not to put at risk the maximum integration of the current elite in the state, party and military apparatus.

15 | Resource Efficiency

The government uses only some of the available resources efficiently.

The annual state budget deficit was generally below 4% of GDP from the mid-1990s to 2007. However, the financing of state enterprises relied on a so-called chain of non-payment. State enterprises fail to pay for what they purchase, except on a delayed schedule of their own choosing. Enterprises thus refuse to resupply each other or hoard resources. Cuban enterprises respond in the same way to international suppliers other than those from the United States (Cuba pays cash for imports of agricultural products from the United States), which accounts for the extremely limited market financing available for Cuba’s international trade and the large debts owed to Paris Club governments.

Cuba’s unemployment rates are in the single digits. For the sake of social and political order, the government sustains high levels of formal employment even though workers do little on the job; Cuban labor productivity is extremely low thanks to this disguised unemployment.

Cuba continues to allocate substantial resources to the health system as a key source of regime legitimacy. Appointments to senior managerial, administrative and professional jobs, as well as admissions to the university, are based formally and explicitly on political criteria. For top appointments, the nomenklatura system inherited from the Soviet Union persists, with all senior appointees vetted by the Communist Party.

Regulations are ordinarily set centrally in Havana, taking insufficient account of local conditions and territorial variation. Prices for goods or services, set centrally, underestimate the cost of transportation and storage.
With the transfer of power to Raúl Castro, bureaucratic rationality and respect for formally established institutions have come to replace personalistic preferences as to the allocation of resources and the creation of parallel structures under Fidel’s leadership. Efficiency has become a key word in the official discourse, and some, albeit limited progress has been made in practice.

Effective and coherent policy coordination is hindered by bureaucratic inefficiencies and deliberate political motivations. While the government of Fidel Castro could coordinate its use of resources to achieve political objectives, it frequently failed to coordinate between conflicting “merely” economic objectives. A key source of incoherence stems from the monetary dualism, which utterly distorts economic incentives. Similarly, the “chain of non-payment” of enterprise liabilities provides powerful incentives against coordination.

Stakhanovite campaigns are one coordination strategy that Fidel Castro favored. In these instances, funds, machinery, equipment and labor would be concentrated on a high-priority objective, albeit invariably at high cost to other sectors from which those resources were drained. Another distinct feature of Fidel’s tenure was the repeated creation of parallel structures with unclear responsibilities, which ensured his role as ultimate judge.

Raúl Castro’s government has clearly bid farewell to these parallel organizational structures, and in economic policy it has adopted an emphasis on economic rationality and coherence, calling to restore the value of salaries in order for these – rather than the short-term campaigns – to become the key incentive for work. However, the government has not yet found a way to overcome the profound distortions caused by the dual monetary system.

Government corruption grew substantially since 1990, thanks to the convergence of three forces: the establishment of just enough of a “market economy,” high state intervention in that economy, and extraordinary discretion allowed to government officials in making the smallest of decisions. In 2003 – 2004, the minister of tourism and many key officials and state enterprise executives in Cuba’s leading economic sector were dismissed, tried for corruption and convicted. However, the government has shown little understanding of the way that incentives created by its political economy framework fostered corruption.

The media has a role in monitoring corruption that affects individuals, such as that displayed by restaurants, bakeries, or clothing stores that cheat customers, but plays no part in investigating more serious cases of corruption. There are no provisions for public accountability of office holders; foreign investment bid processes remain confidential.
16 | Consensus-Building

No important political actors can be identified who are working to build a market-based democracy. Opposition leaders seem to favor market-based democracy but only Oswaldo Payá has demonstrated that he can gather as many as 14,000 signatures on a petition.

In the early to mid-1990s, then-General Raúl Castro, Vice President Carlos Lage and Economy Minister Jose Luis Rodriguez proposed, implemented and defended the limited market reforms that remain in place. In 2008, President Raúl Castro widened the scope for private participation in agriculture. But these changes have not been connected to democratic reforms, nor have they ever been publicly characterized as building a market economy.

The ruling elite of state, Communist Party, and military cadres are anti-democratic actors who have effectively vetoed democratization or liberalization of the regime. Many within the establishment may harbor some ambivalence regarding the system and a potential democratic alternative, but these are, if they exist at all, confined to private conversations. Other than the leaders of small opposition groups and of religious denominations whose social support is at most a fifth of the population, there are no relevant political actors committed to advancing democratic reforms. The reform-minded forces within government aim at effecting reforms within the state-socialist system, not at overcoming it.

The political leadership has successfully sustained its unity. It effectively prevents the emergence of racial or regional cleavages through an impressive commitment to equality across racial and territorial lines. In the early 1990s, it dropped atheism and anti-religious discrimination in order to include religious believers within its managed consensus. As such, the key cleavage is political in nature. Nationalist feelings against the U.S. government are deployed to deepen social cohesion. If one were to regard emigrants as part of the national conflict, the large-scale emigration of discontents has produced a profound cleavage, as the conflicts between Cubans on the island and in the diaspora will be difficult to reconcile.

The political leadership manages civil society in order to formulate policy autonomously but it does not ignore civil society. In the 1960s it actively sought to create and nurture certain forms of social capital – neighborhood Committees for the Defense of the Revolution, study and work gatherings of the Cuban Women’s Federation and the like. These same mass organizations became instruments to wield against regime opponents. These old organizations matter less in the 2000s, but the government continues to look for ways to manage or create civil society entities in sports and entertainment. The government uses the social organizations that it sponsors to inform its decisions, but frequently ignores that information as it
sets its preferred course of policy. Although a number of officially established associations have presented themselves as “non-government organizations,” their autonomy is clearly limited by the state.

For the most part, the government does not acknowledge that it has committed injustices or victimized citizens. It claims that all the historical injustices are a legacy of its predecessors or aggression against Cuba by the United States, domestic regime opponents or exiles. In 2001, the political leadership refused a gesture from some former members of the Bay of Pigs exile brigade to build, at their own expense, a monument at that site to all who fought in that battle, on both sides. The government has permitted some of these individuals, bearers of symbolic and actual battle scars, to visit Cuba and to have cordial discussions with their former adversaries. The government selectively invites members of the Cuban diaspora to visit for discussion, but it manages the agenda and the meetings unilaterally.

There has been an implicit recognition of past wrongdoing in the cultural sphere, where some formerly disdained artists or authors have been de facto reintegrated into the canon of Cuban culture. There has also been recognition of an erroneous policy regarding the repression of homosexuals in the 1970s. However, none of these cases were accompanied by any formal expression of guilt or responsibility.

17 | International Cooperation

The political leadership has built a strong alliance with Venezuela’s President Hugo Chávez. Some of these resources have been used to develop de facto health-care services exports – that is, there is a formal exchange of non-commercialized solidarity between Venezuela and Cuba in the form of Venezuelan price-discounted petroleum bound for Cuba, and the deployment of Cuban health care workers to Venezuela and elsewhere, all outside of a market context. Cuba’s growing experience in exporting services may in the future become a resource helping to develop and sustain a trajectory of economic growth. Cuba has also developed a strong relationship with China, and has welcomed Chinese investment and trade in Cuba.

Cuba has received humanitarian or relief assistance to mitigate natural disasters, especially hurricanes. Religious donors support Cuban churches and also provide means to distribute medicine and food. Annual international donations have averaged $50 million. The government cooperates with specific international donors for particular projects, but has resisted political and economic advice from the West. For Cuba, international aid has the effect of improving political and economic performance rather than of prompting policy change. After having been banned by Fidel Castro, relations with the European Union have gradually normalized under Raúl Castro, increasingly allowing European aid and cooperation.
Under Raúl Castro’s leadership the Cuban government has increasingly presented itself as a credible and reliable partner in international affairs. However, in economic matters the financial squeeze has led to a poor record of repayment, resulting in a considerable lack of credibility as seen by Western partners. In the past, Cuba suffered from a lack in trust in international policy due to the fact (among other reasons) that in the late 1990s and early 2000s Cuba twice pulled out of negotiations to participate in the Cotonou agreement between the European Union and the African, Caribbean and Pacific Group of States (ACP), because a condition for membership was an increased respect for human rights and advancement toward political opening. In 2003, the regime cut off all contact with European ambassadors in Havana, jeopardizing prospects for cooperation, because the European Union had criticized the government’s arrest of 75 opposition leaders. In the late 1990s, Cuba sacrificed economic opportunities with Canada and Argentina because their governments attempted to link such relations to the promotion of human rights; the same happened to relations with Mexico between 2002 and 2004. Good relations are sacrificed to avoid giving the appearance of granting outsiders a say in domestic Cuban politics.

Under Raúl Castro, the Cuban government has markedly reduced its ambitions in global politics, but Cuba still plays an important role in many international forums and organizations. It works well with the Caribbean Community (CARICOM) and provides extensive assistance to these Caribbean island states in higher education and health care services. It has deployed tens of thousands of health care personnel across the world, most recently to Venezuela. But the Cuban government is extremely reluctant to abide by U.N. standards for human rights or the CARICOM’s commitment to democracy. At the end of 2004, together with its closest ally, Venezuela, Cuba co-founded the Bolivarian Alternative for the Americas (ALBA) as an explicitly non-capitalist integration scheme for Latin America, and as a counterpart to U.S. influence on regional trade relations. Selectivity is the key to Cuba’s engagement.
Strategic Outlook

Cuba’s political and economic regimes are likely to change only gradually until Fidel Castro (who was born in 1926) dies or becomes even more incapacitated than he has been since entering the hospital in August 2006. Fidel Castro no longer governs Cuba, but the successor government will need to avoid being seen as betraying his legacy.

President Raúl Castro has enacted a peaceful, uneventful transition of power from his brother, but he still has to prove that he can restore public confidence in the government’s ability to provide for material well-being. In a medium-term perspective, his most challenging task is to engineer the transition from his generation to the next. He has shared power with a small group of gerontocrats; this has worked well in the short term but is unsustainable in the long term. Moreover, he and his close associates lack the personal skills to communicate effectively and build public support in a more open post-Fidel Cuba. As Fidel Castro’s slogan of the early 1990s might have put it, to “save socialism, and save the revolution,” the late-2009 Sixth Congress of the Cuban Communist Party should set the stage for at least some transgenerational transfer of power. Cohesion among Cuban elites will be crucial for any further developments.

The world economy collapsed during Raúl Castro’s inaugural year as president. Cuba has not been deeply affected by the worldwide credit crunch, because it has had access only to trade credits in world markets (it gets loans of longer maturity and better terms only from Venezuela and China). But Cuba has suffered as key hard currency sources have diminished, as a result of drastic falls in the price of Cuba’s main export, nickel. Similarly, the recession in the international tourism economy has hurt the country’s earnings, and the volume of remittances has declined. Venezuela’s Hugo Chávez is more financially constrained, given the plunge in world petroleum prices, and may thus be less able to finance Cuba’s health care and other services exports at present prices.

Cuba’s principal resource, however, is not its nickel or its beaches but the talents of its people. It may have the Western world’s best-educated and least expensive workforce. Thanks to Chávez, it has discovered that it can export the products of Cuban brains, not just the country’s natural resources; but to do so, it should move decisively to open up markets and, to some extent, politics. Consider some extremely modest changes, all of which Raúl Castro could implement:

- Cuba’s still relatively egalitarian income distribution and highly educated population, many of whom have worked abroad on “internationalist” missions, could lay the structural foundation for democratic politics. Cuba’s highly educated population could be the engine of economic growth through the export of professional services to world markets, not just a political deal with Hugo Chávez.

- Cuba’s market opening should include a competition policy. Where international markets are already competitive, as in tourism, the current policy to create and protect monopolies or
oligopolies should be discarded, and instead competition among international investors should be stimulated. Cuba’s market opening could build on the current law that permits self-employment, modified to promote small businesses, including authorization to hire nonrelatives up to a certain firm size. Cuba could permit intermediaries to buy from farmers and sell in cities, instead of pretending that farmers bring their products to the cities (when in fact intermediaries work in violation of law).

- A political opening would unlock development assistance from the European Union and Canada, and could improve relations with the Obama administration so that the United States stops blocking Cuban economic growth. Cuba could, for example, release its fewer than 300 remaining political prisoners. It could modify its electoral law to permit single party but multi-candidate elections for the National Assembly, just as now take place for municipal elections. It could permit candidates at all levels to campaign for office within the framework of the single party, which now National Assembly deputies may do.

Under Raúl Castro Cuba has turned to a more institutionalist and less personalist brand of socialism, and he has at least discursively acknowledged the need for economic changes and a more open social climate. Cuba’s path toward social market democracy remains distant and uncertain, but it may at last be on the horizon.